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ADMINISTRATIVE AND BUDGETARY MATTERS

# Fund of the United Nations International Drug Control Programme: programme support cost arrangement

## Note by the Executive Director

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## INTRODUCTION

1. The Commission on Narcotic Drugs, in its resolution 13 (XXXVI), requested the Executive Director of the United Nations International Drug Control Programme (UNDCP) to report through the Advisory Committee on Administrative and Budgetary Questions (ACABQ) to the Commission at its thirty-seventh session on the ways and means of dividing administrative expenses between special-purpose and general-purpose funds, as well as on the mechanisms for the determination of agency support costs, taking into account the promotion of government execution in the operational activities of the United Nations development system and the current practice of other programmes and funds of the United Nations. Because of the close relationship between the programme support arrangement and the programme budget, the Executive Director decided to submit the requested report to the Commission at its reconvened thirty- sixth session, together with the proposed final programme budget and performance report for the biennium 1992-1993 and the proposed initial programme budget for the biennium 1994-1995 (E/CN.7/1993/14).

2. ACABQ had previously recommended that a mechanism be devised whereby administrative costs would be proportionately charged to funds earmarked for specific projects (E/CN.7/1992/12/Add.3, para. 10). In its review of the formula proposed in the context of the revision of the programme budget for the biennium 1992-1993 (E/CN.7/1993/5, paras. 125 and 126), ACABQ noted that the formula appeared to be fairly complicated (E/CN.7/1993/11, para. 8). It also stated that it expected a better explanation of the rationale used for the various calculations, considering the current practice of other programmes and projects supported by the United Nations system.

3. In response to the request to prepare a report on the programme support cost arrangement, detailed consultations were held on current practice and developments with the Office of the Controller of the United Nations and with the United Nations Children's Fund (UNICEF), the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Industrial Development Organization (UNIDO). The conclusions reached are presented below. First, the United Nations model and the current UNDCP programme support cost arrangement are described. Next, two alternative concepts, the UNDP support cost successor regime and the new FAO support cost reimbursement model, are presented. Finally, a modified UNDCP programme support cost arrangement is proposed.

## I. UNITED NATIONS MODEL AND THE CURRENT PROGRAMME SUPPORT COST ARRANGEMENT OF THE UNITED NATIONS INTERNATIONAL DRUG CONTROL PROGRAMME

4. The UNDCP programme support cost arrangement follows the United Nations model. The Financial Regulations and Rules of the United Nations do not make any specific reference to programme support costs. More details are given in a Secretary-General's bulletin on the establishment and management of trust funds (ST/SGB/188, para. 47), in which it is stated: "Reimbursement for programme support costs (previously referred to as 'overheads') shall be provided for in respect of all activities financed from trust funds. The amount of the reimbursement shall be calculated at the standard percentage rate approved by the General Assembly." In addition, in the annex to that bulletin, programme support costs are defined as "administrative and technical costs incurred in the implementation of programmes and projects financed from extrabudgetary

resources, including trust funds". A standard rate of reimbursement to cover support services had initially been established at 14 per cent of the value of project delivery. In the early 1980s that rate was reduced to 13 per cent, pursuant to decision 80/44 of the Governing Council of UNDP.

5. Procedures regarding the approval, administration and control of programme support accounts are set out in an administrative instruction on programme support accounts (ST/AI/286, annex). According to those procedures (references in parentheses refer to the relevant sections in the procedures):

(a) Charges to trust funds for programme support are credited to a special account for programme support costs (section II. B);

(b) Extrabudgetary funds are charged against each fund for programme support as a percentage of annual final expenditures (section II. C);

(c) Programme support resources should be used in areas where a demonstrable relationship exists between the supporting activity concerned and the activities which generated the programme support revenue. In this respect, offices utilizing programme support resources should ensure an equitable distribution among project management, programme management and the central administrative functions (i.e. finance, personnel and general services). Programme support resources may be used for substantive backstopping of projects in technical cooperation programmes (section III. B);

(d) Programme support funds may not be utilized for purchase of non-expendable equipment (other than office equipment) or rental or purchase of computer equipment (section III. C);

(e) The programme support budget proposals are prepared along the same lines as the regular budget presentation (section IV. A.1).

6. In accordance with the United Nations model, a programme support rate of up to 13 per cent is charged on projects executed by UNDCP. Project execution includes the responsibility for maintaining overall project control and accountability for the achievement of project objectives. Organizations executing projects for UNDCP also retain up to 13 per cent of the total project expenditure for programme support, as defined in detailed agreements concluded between UNDCP and the executing organizations. However, no programme support is provided for government execution of UNDCP-funded projects. This programme support arrangement is applied regardless of the source of funding, that is, regardless of whether it comes from general-purpose or special-purpose contributions.

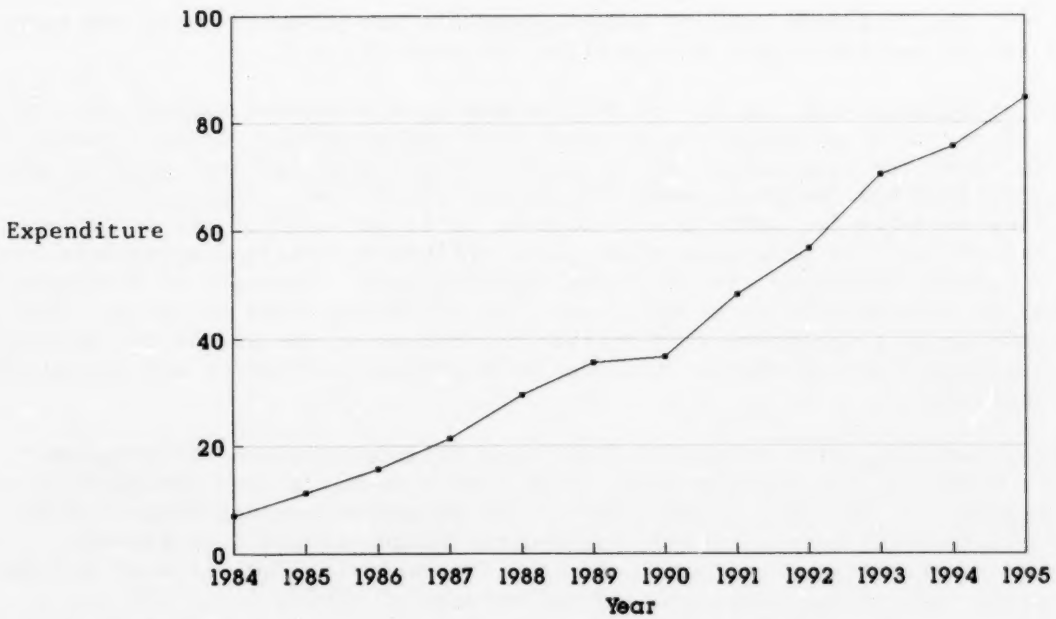
7. Programme support earnings of UNDCP were utilized to fund the programme support budget at its headquarters, which covers technical and administrative backstopping activities. In addition to the programme support budget, UNDCP headquarters requirements include the central budget funded from general-purpose or special-purpose contributions. The central budget is used to fund activities carried out under the general mandate of UNDCP.

8. Prior to the adoption by the General Assembly of its resolution 46/185 C, section XVI, in which the Assembly decided that the Executive Director of UNDCP should maintain the accounts of the Fund of the Programme, UNDCP programme support was credited to the global programme support account administered by United Nations Headquarters. A programme support allotment was

issued to UNDCP by the Programme Planning and Budget Division of the Secretariat. Approximately 20 per cent of total programme support income was retained by United Nations Headquarters for the administration of the programme support account. Since the adoption of General Assembly resolution 46/185, the utilization of programme support has been administered directly by UNDCP. For 1992, the last year in which a programme support allotment was issued by United Nations Headquarters, five General Service posts were supported from programme support, at a total cost of 245,500 United States dollars.

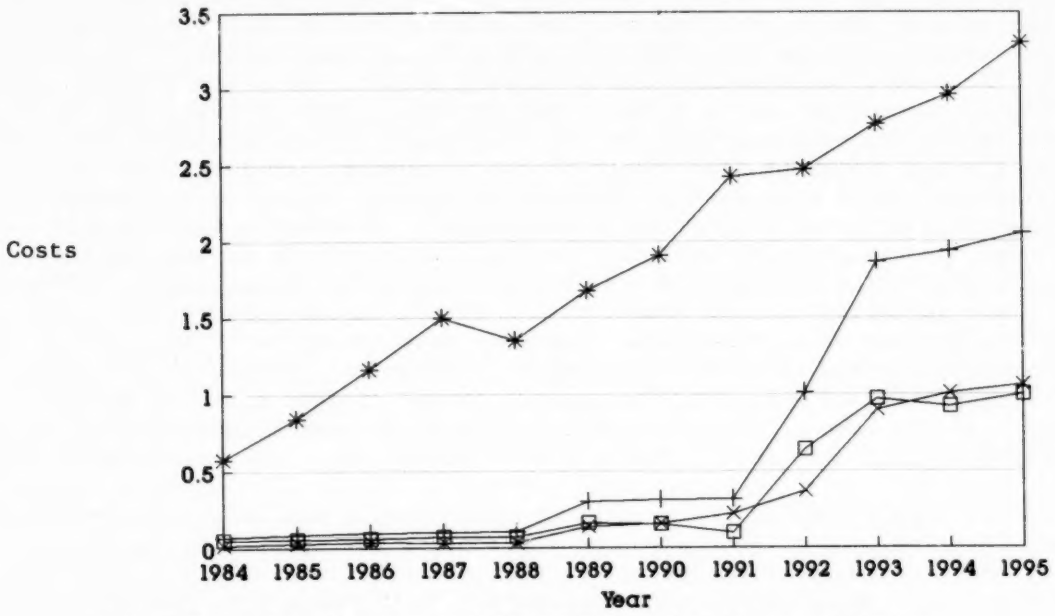
9. Figures I and II give details on project expenditure and programme support costs. Figure I shows that project expenditure has increased substantially, from US$ 7,120,800 in 1984 to an estimated US$ 84,500,000 in 1995. Whereas programme support paid to executing agencies increased with a rate similar to project expenditure, the programme support earnings of UNDCP remained rather stable (see figure II). This is considered one of the shortcomings of the current system. Insufficient programme support earnings necessitate increased subsidy from the central budget of UNDCP for the implementation of projects. With the introduction of the modified UNDCP programme support cost arrangement in 1993, programme support earnings increased substantially, particularly the earnings generated by projects funded from special-purpose contributions. Details on the modified UNDCP programme support cost arrangement are provided in section V below. Before describing recent developments in the programme support field, the current practice in UNDCP is discussed.

Figure I. Fund of the United Nations International Drug Control Programme: project expenditure, 1984-1995 a/
(Millions of United States dollars)




a/ Values for the years 1984-1995 are based on estimates.

Figure II. Fund of the United Nations International Drug Control Programme: programme support costs, 1984-1995 a/




a/ Values for the years 1993-1995 are based on estimates.

- Total executing agency earnings generated by projects
- Total UNDCP earnings generated by projects
- UNDCP earnings generated by projects funded from special-purpose contributions
- UNDCP earnings generated by projects funded from general-purpose contributions

## II. DISCUSSION OF THE PROGRAMME SUPPORT COST ARRANGEMENT OF THE UNITED NATIONS INTERNATIONAL DRUG CONTROL PROGRAMME

10. The UNDCP programme support cost arrangement can be examined from three perspectives: (a) assignment of responsibility, (b) reimbursement concept and (c) cost-transparency.

11. The reimbursement of programme support costs is linked to the responsibility assumed by the organizations participating in project execution. A number of possibilities have been identified for UNDCP to clarify assignment of responsibility in project execution. In some cases, an organization that carried out a major part of the projects was designated as the executing organization, even though UNDCP maintained overall control and responsibility for project execution. Since programme support was paid only to the executing organization, no programme support income was retained by UNDCP. In other cases, UNDP was identified as the executing organization for projects that were implemented entirely under the responsibility of the Government and for which UNDP only provided some administrative support. The modified UNDCP programme support cost arrangement, outlined in paragraphs 30- 43 below, is based on a clear allocation of responsibility between organiations participating in project execution. This, in turn, provides the basis for establishing a modified programme support reimbursement concept.

12. The reimbursement of programme support is limited to 13 per cent. In some cases, for example, the awarding of grants, no programme support has been

charged by UNDCP. The cost of technical and administrative support for project execution, however, has exceeded the rate of 13 per cent. In a recent UNDP-sponsored study (ACC/1993/FB/R.7, para.2), the combined cost of technical support services at the project level and administration and operational support provided to projects was calculated to amount to 31.9 per cent of total expenditure. According to United Nations practice, support costs are shared between the funding, executing and recipient organizations. This cost-sharing can also be seen as subsidy provided from the central budget of the participating organization for the implementation of the project. Support provided from the central budget is seen as part of the general mandate of the participating organization and is not subject to reimbursement. Although a flat rate of 13 per cent is clearly not sufficient to cover the entire programme support cost, the limitation of previous cost studies should be acknowledged. There is no clear guideline on what constitutes a direct expense chargeable to a project budget and what constitutes programme support cost. If an outside contractor provides a service, for example, a technical service or the print ing or translating of a report, the invoice can be charged directly to the project. If the same service is provided by a staff member, however, it is considered support cost and is financed from the support cost reimbursement.

13. In the case of UNDCP, the concept of cost-sharing implies, among other things, the provision of general-purpose resources for supporting the execution of projects funded from special-purpose contributions. This is the case for all types of implementation arrangements: UNDCP execution, for which UNDCP retains 13 per cent, as well as agency execution or national execution, for which UNDCP retains no programme support. Although there is a rationale behind the concept of cost-sharing, it may still be desirable to contain and to reduce the overall subsidy provided by the central budget to project implementation. There are two ways of doing this. First, the standard rate of reimbursement can be increased. Secondly, all programme support costs can be charged directly to the project. The initial proposal was to limit the subsidy from the central budget to project activities in the context of the revised programme budget for the Fund of UNDCP for the biennium 1992-1993 (E/CN.7/1993/5, para. 125). In contrast to United Nations practice, the intention was to partially reimburse UNDCP for support it had provided to projects that had been executed by other organizations, while respecting the ceiling of 13 per cent, and to reimburse UNDCP for support provided to national execution. As indicated in paragraphs 33-35 below, this concept will not be maintained.

14. A flat rate for the reimbursement of programme support is simple and easy to implement. It has been criticized, however, as prohibiting cost-transparency and introducing undesirable incentives. In fact, a flat rate arrangement can favour higher expenditures in so far as these would lead to a higher level of reimbursement. For example, a higher level of reimbursement can be achieved by using expensive international experts rather than less expensive national experts. In addition, to executing organizations, large-scale projects are more attractive than small-scale ones. An arrangement using separate reimbursement rates for a specific cluster of activities can provide different cost incentives and enhance cost-transparency, while relating charges and percentage rates to project costs and enabling donors and recipient countries to be in a better position to assess the quality of services provided. Cost control would also be essential to this process. By creating transparency in the computation of charges and by making the use of technical and administrative services subject to negotiations with donors and recipient Governments for each project, donors and recipients would be in a position to assess the need, the adequacy and the cost benefits of the services provided. The specific identification of support services in technical project budgets would

ensure their delivery on a programmed basis. Such a system would strengthen the ability to provide high-quality support services on a competitive basis. Although the use of separate reimbursement rates appears to offer a number of advantages, it would add considerably to the complexity and costs of maintaining a programme support cost arrangement.

## III. SUPPORT COST SUCCESSOR REGIME OF THE UNITED NATIONS DEVELOPMENT PROGRAMME

15. The Governing Council of UNDP, in its decision 90/26, decided to adopt a new system for reimbursing the five United Nations entities that administered the largest shares of its field projects, namely the Department for Development Support and Management Services of the Secretariat, the International Labour Organisation, FAO, the United Nations Educational, Scientific and Cultural Organization and UNIDO. That system, referred to as the UNDP support cost successor regime, became effective for projects financed after 1 January 1992. UNDP has abandoned the flat rate previously used and has replaced it with a system that uses standard differential rates applied to different types of services provided. The UNDP successor regime maintains the concept of a cost-sharing arrangement between funding, executing and recipient organizations, which implies a continuation of the practice of subsidizing project execution from the central budget.

16. The agency support costs form part of a broader policy package that includes new initiatives relating to national execution and the programme approach. The policy deals with development programmes and projects at three levels: ownership, execution and implementation. It is recognized that all programmes and projects are nationally owned, directed and controlled. Execution entails the overall management of the programmes and projects, together with responsibility and accountability for the production of outputs, the achievement of objectives and the use of resources. Implementation entails the provision of administrative and operational services for programme and project delivery. The policy framework also provides for continuation and enhancement of the multilateral character of technical cooperation. In doing so, it seeks to strengthen the policy advisory role of the specialized agencies and their technical focus, while keeping to a minimum their involvement in providing administrative and operational services.

17. The UNDP support cost successor regime is designed to utilize the technical capacity of agencies in various stages of the programme and project cycle. In the "upstream" stage, agencies are involved in policy dialogue with Governments, in giving them sectoral advice through sectoral studies and consultations and in the design and formulation of national development and sectoral programmes. In the project formulation stage, agencies may be called upon to provide technical expertise in designing and developing technical cooperation projects. They may also be called upon for assistance in preparing appraisals of project formulation by national entities, which are submitted to UNDP for financing. In the operational stage of a project, an agency may be called upon (a) to act as its executing agent; (b) to act as the implementing agent for the entire project or part of it; (c) to provide technical monitoring and backstopping services, irrespective of execution and implementation arrangements; or (d) to provide technical support to the national executing or national implementing agents.

18. The UNDP support cost successor regime provides for three reimbursement facilities. A distinction is made between technical support services (TSS)

and administrative and operational services (AOS); this distinction was not made in the old regime. Two types of technical support services are established: those provided at the programme level (TSS-1) and those at the project level (TSS-2).

19. TSS-1, which did not exist in the old regime, is a new reimbursement facility for services provided at the programme level. The funds are used to achieve a sharper technical focus by the five agencies and to enhance agency technical support to developing countries in the upstream stages of the programme and project cycle. Work funded under TSS-1 covers sectoral policy advice to Governments and the formulation of subsectoral and cross-sectoral strategies and programmes. It is considered supplementary and complementary to similar activities carried out under the regular programme of participating agencies, the latter being viewed as matching funds of TSS-1 in the formulation of a programme of sectoral activities at the country level. The resources of TSS-1 are managed centrally by UNDP, which has the authority to select activities to be financed by TSS-1. The services required for TSS-1 activities are budgeted according to standard work-months and are based on the cost of both Professional and related General Service support staff plus some incremental non-staff costs. Mission costs are chargeable to TSS-1 on an actual cost basis. There is no cost-sharing as such of direct incremental costs by the five United Nations entities; however, the entities provide similar services from regular programme resources.

20. TSS-2 funds are used primarily to provide technical support, that is, technical monitoring and backstopping, during project implementation. They are seen to complement other funding resources for financing technical support services, including project budgets and the regular budget of participating agencies. Requirements for technical support services are determined on a project-by-project basis during project design. Technical services are seen to be event-driven services or backstopping from the headquarters of the executing agency. Event-driven services are required in response to a particular project-related event, typically one that occurs within a country, such as a technical review mission. Backstopping from the headquarters of the executing agency, such as technical advice and commentary on technical reports, is provided from outside the country. Costs of other technical support services, such as project formulation, appraisal and evaluation, are charged directly to project budgets, as are mission costs related to TSS-2 activities. TSS-2 services are budgeted according to standard work-months. The established rate per work-month is based on Professional staff costs only and does not cover use of agency General Service support staff or other incremental overheads. The Governing Council of UNDP, in its decision 90/26, decided to appropriate 2 per cent of the programmable resources to the financing of those services which may be deemed to be best financed centrally. This reflects the principle of cost-sharing, not only with regard to the cost of work-months billed to TSS-2, but also with regard to the total cost of the TSS-2 service provided. The cost of project technical support services is specific to each organization. The amount of 2 per cent is clearly not intended to be sufficient. In the case of FAO, the total cost of project technical support services is calculated at 12.7 per cent.

21. AOS comprises services related to the procurement and delivery of project inputs. Those services can be obtained from a variety of sources, including agencies and external agents, for example, a national institution or a non-governmental entity. AOS is "unbundled" into standard differential rates for clusters of administrative and operational support to projects. The following rates have been approved:

(a) Equipment and supply procurement:

(i) Local: 6 per cent;

(ii) Headquarters of the executing agency in excess of the limit of the Committee on Contracts: 4 per cent;

(iii) Below the limit of the Committee on Contracts: 10 per cent;

(b) Subcontracting: 11 per cent;

(c) Training:

(i) Fellowships: 12 per cent;

(ii) Other training: 21 per cent;

(d) Project personnel:

(i) International: 9 per cent;

(ii) National: 11 per cent.

AOS provides reimbursement based on the five-agency-average costs of each service cluster reduced in such a way that the total reimbursement does not exceed 10 per cent of the delivery. The reduction reflects the principle of cost-sharing, which, given an overall percentage of 21.7 per cent of delivery, represents an average subsidy by the five United Nations entities of 11.7 per cent each, or a total of slightly more than 50 per cent.

22. Taken together, the total support of field projects with regard to TSS-2 and AOS amounts to over 30 per cent, compared with a reimbursement of approximately 12 per cent. This calculation does not include the cost and reimbursement of TSS-1, since TSS-1 represents a new facility that is designed to expand existing technical support services at the programme level.

## IV. NEW SUPPORT COST REIMBURSEMENT MODEL OF THE FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

23. In accordance with United Nations practice, FAO charges up to 13 per cent for programme support for trust fund projects. The new FAO support cost reimbursement model is essentially a simplified extension of the UNDP support cost successor regime. It follows the general outline of the UNDP programme support arrangement in that it provides for different mechanisms for reimbursing the cost of technical support services and administrative and operational support services provided to projects. In addition, unlike the UNDP regime, the new FAO reimbursement model narrows the gap between the actual support cost and the level of reimbursement. At its hundred and third session, held at Rome from 14 to 25 June 1993, the Council of FAO indicated its general support for the new FAO support cost reimbursement model, which was to be submitted to the Conference of FAO at its twenty-seventh session in November 1993. 1/

24. A new arrangement was needed by FAO because the level of reimbursement under the old arrangement was seen as inadequate. Whereas some cost-sharing was considered acceptable in the case of UNDP-funded programmes, several

member States of FAO had stressed that for trust fund projects, the costs of support services should in principle be borne fully by the project concerned. Based on cost measurement studies, it has been argued that the support required by the FAO regular budget has been substantial and has been increasing, widening the gap between reimbursement received and costs incurred. One of the reasons for this is the changing nature of the services sought and the inputs to be provided by FAO: increasing complexity, shorter-term assignments and a lower cost base owing to the increasing use of local inputs, such as national experts. In addition, recent large increases in costs, particularly at the European headquarters of FAO, had surpassed growth in field project delivery.

25. The pressure resulting from increasing costs made it increasingly difficult for FAO to ensure the required quality of technical support. One of the difficulties in providing good technical support was that insufficient funds were provided by UNDP and trust fund donors. The lack of resources had resulted in a shortfall in essential services being provided. That phenomenon had been particularly evident in the project preparation phase, where the lack of funding for project formulation and appraisal had adversely affected projects in their critical design stage. For that reason, various donors have for several years agreed to establish project preparation and review facilities, with varying amounts of financial resources, to partly cover the costs of project identification, formulation and review.

26. The new FAO support cost reimbursement model attempts to merge two concepts. Owing to the limitations of using either a higher standard rate or the UNDP support cost successor regime, FAO considered it appropriate to develop a new arrangement that would take advantage of both systems. The total amount of reimbursement charged to project budgets is determined in accordance with the following four mechanisms:

(a) Technical support services: The time spent by technical staff (including evaluation and internal audit services) in the field in support of specific projects is billed directly to project budgets;

(b) Administrative and operational support using a combination of fixed lump-sum amounts and percentage rates: A percentage rate is used to charge projects for support services in connection with contracting, procurement and the use of local General Service personnel, national consultants and experts. Component rates are calculated by dividing the total costs incurred by FAO by the total field project expenditure for each of those services. The costs of international personnel services, fellowships and training are charged to projects based on a lump-sum amount. For example, a one-time charge is determined for each consultant work-month covering the cost of recruitment, briefing, debriefing, travel arrangements and administrative services;

(c) Incremental indirect services using a single standard percentage rate: Indirect costs related to trust fund field projects will be assessed using a standard rate. Such costs include those of the resource mobilization unit, the project budgeting unit, the project accounting unit and project management services. The rate is computed by dividing the total direct cost of those activities by the total trust fund delivery;

(d) Specialized reporting and services required by donors: A lump sum is charged to cover the direct costs of responding to donor requests for special services, such as supplemental reporting.

27. The lump-sum charges, the component rates and the monthly billing rates for technical services are designed to recover all direct costs incurred by FAO technical and administrative departments in support of trust fund projects. The costs incurred by FAO central administrative support services in connection with trust fund projects would continue to be financed from the regular programme budget. The UNDP study indicated that these costs represent approximately 22 per cent of the total support costs.

28. The new arrangement reflects the principle that trust fund projects should bear the costs of their operations so as to avoid undue pressure on the regular programme budget. Nevertheless, while the proposed cost-sharing arrangement is expected to have a number of advantages, it still requires FAO participation in the form of support from the regular budget of that organization, though at a drastically reduced rate. It is expected to strengthen the design of programmes and projects, as well as the quality of the technical and operational services to be provided by FAO. It will allow for clear identification of the nature and level of services, together with their costs; it will also permit recognition of the different levels and types of services that FAO may be called upon to provide, and will allow donors and recipients to jointly determine their requirements. Another expected implication of the new arrangement is the increased use of FAO staff members rather than consultants to provide technical support; those costs can be charged directly to the project. In summary, the proposed FAO support cost reimbursement model will increase the reimbursement from projects significantly and at the same time provide donors with increased accountability in connection with the support services provided.

29. Although it is simpler than the UNDP support cost successor regime, the new FAO support cost reimbursement model is considerably more complex than the United Nations model, which is based on a flat rate. FAO will be required to develop central accounting and budgeting mechanisms to ensure that there is a direct relationship between the staffing of the technical units and the services required by donors. In addition, although the Council of FAO, at its hundred and third session, expressed general support for the new arrangement, the representatives of some members of the Council were critical. Whereas some stated that the objective should remain full cost recovery, others considered that the cost-sharing was proper and essential, arguing that the new arrangement for the increase in support cost could lead to a decline in the volume of trust fund activities and could impair competitiveness in implementation. It was recognized that for a given volume of resources, the new arrangement would result in fewer projects being delivered, although the quality of delivery would be improved. Cost-transparency was welcomed, although several member States expressed reservations about the applicability of the new proposals in the light of their complexity and the difficulties of internal accounting monitoring. Concern was expressed about the administrative tasks, which could become more cumbersome, and about difficulties in resource programming for donors. It was noted that the additional transparency associated with the new arrangement would bear a high cost. Finally, the Council of FAO expressed the hope that the support cost methodologies to be used by agencies of the United Nations system would be harmonized and stressed the difficulties of institutional collaboration which might result from different arrangements. 2/

## V. MODIFIED PROGRAMME SUPPORT COST ARRANGEMENT OF THE UNITED NATIONS INTERNATIONAL DRUG CONTROL PROGRAMME

30. The UNDP support cost successor regime and the new FAO support cost reimbursement model are seen to successfully address specific needs in those two

organizations. The extension of these models to UNDCP, possibly in a simplified fashion, might be considered. Other models appear to be possible, such as increasing the standard reimbursement rate of 13 per cent. Although this would limit the subsidy provided by the central budget, it would fail to address the questions of project quality and cost-transparency.

31. Taking into account the specific needs of UNDCP and the size of its programme, it has been decided in discussion with the Office of the Controller of the United Nations to propose a modified programme support cost arrangement that follows the United Nations model. The simplicity of the United Nations model is most attractive considering the size of UNDCP compared with, for example, UNDP. A more transparent and more complex arrangement would involve additional costs not justified by the benefits it would provide. Nevertheless, major improvements over the previous practice are proposed to deal with the three main concerns of (a) assignment of responsibility, (b) reimbursement concept and (c) cost-transparency. The modified UNDCP programme support arrangement has already been reflected in the proposed final programme budget and performance report for the biennium 1992-1993 and in the proposed initial programme budget for the biennium 1994-1995 (E/CN.7/1992/14).

## A. Assignment of responsibility

32. A clear allocation of responsibilities between the organizations participating in the execution of projects has been introduced, similar to the understanding applied by UNDP and distinguishing between executing, associated and cooperating organizations. An executing organization is responsible for the overall management of the project. This responsibility includes accountability for the delivery of outputs, the achievement of project objectives and the use of UNDCP resources. An executing organization can be a national organization (such as the recipient Government or a non-governmental organization) of UNDCP itself, an agency (such as another United Nations entity, an intergovernmental organization or a non-governmental organization). Whereas an executing organization retains full responsibility for project implementation, other organizations perform, under the responsibility of the executing organization, specific tasks in the project implementation. If the project is a nationally executed one, the entity is called a cooperating organization. If it is UNDCP- or agency-executed, it is called an associated organization. UNDCP or any executing organization can also act as an associated or cooperating organization.

## B. Reimbursement concept

33. The assignment of responsibilities is based on the concept of cost-sharing and a maximum reimbursement level of 13 per cent as reflected in the United Nations model. Only executing, associated and cooperating organizations share in programme support payment, on the understanding that the level of reimbursement is not sufficient to cover fully the cost of supporting the project. If UNDCP participates as funding organization only, it retains no programme support. Any support activities that UNDCP provides as a funding organization are considered to fall under its general mandate and are covered under its central budget. To limit the support provided by the central budget to project implementation, an effort will be made to identify all direct costs of the central budget involved in project execution. Those costs should be charged to the project and not to programme support, which will result in a shift of charges from the central budget to the project budget. The various reimbursement schemes for project execution are outlined in paragraphs 34 and 35 below.

34. For UNDCP, a fixed rate of 13 per cent is charged for programme support (i.e. there is no reduced rate for specific projects). For agency execution, a maximum of 13 per cent of programme support is paid to the executing organizations. The actual level of reimbursement is negotiated between UNDCP and the executing organization. If the project is implemented through executing and associated organizations, the project support costs are shared in relation to the backstopping support that has been provided. The actual percentage of programme support is negotiated with the various organizations involved. If UNDCP is the executing organization without the involvement of an associated organization, it retains a programme support cost of 13 per cent. If UNDCP is the executing organization and UNIDO is involved as an associated organization, performing procurement services, the programme support is shared as follows: 8 per cent for UNDCP and 5 per cent for UNIDO.

35. For national execution, no separate programme support is provided for government execution, as in the UNDP model, since resources to cover the costs of technical and administrative support are already included in the project budget. In addition, no programme support is retained by UNDCP for national execution as was initially proposed in the context of the revised programme budget for the biennium 1992-1993 (E/CN.7/1993/5, para. 125). Cooperating organizations involved in government-executed projects, however, can receive programme support funds amounting to no more than 3.5 per cent of the total project cost. This is the case, for example, in a government-executed project in which UNDP is a cooperating organization. In contrast to the arrangement in projects involving government execution, in projects involving national execution by non-governmental organizations up to 13 per cent of the total project cost is paid for programme support, as is the case for executing agencies. The level of reimbursement is determined on a project-by-project basis.

### C. Cost-transparency

36. Programme support resources earned by UNDCP are used to fund technical and administrative backstopping activities. In the current UNDCP programme support cost arrangement, only UNDCP headquarters requirements are considered for funding from programme support earnings. With the expansion of the UNDCP field operations, technical and administrative backstopping activities are increasingly being provided by the UNDCP field offices. It is therefore proposed to include the field offices in the modified UNDCP programme support cost arrangement. UNDCP headquarters and field operation requirements are viewed jointly. Both contain (a) a central budget, funded from general-purpose and special-purpose contributions and covering activities falling under the general mandate of UNDCP and (b) the programme support requirements, funded from programme support and covering the technical and administrative backstopping activities.

37. One option for utilizing programme support resources is to fund specific posts or other technical and administrative costs that directly relate to the backstopping activities provided. This approach is in line with the general practice in the United Nations and appears to offer enhanced transparency regarding the use of programme support resources. Technical and administrative programme support is provided by UNDCP headquarters and field operations. The provision of programme support is only one of the many functions of UNDCP. In addition, the backstopping activities cut across all organizational units and involve, to some degree, the majority of the staff whose posts are financed from the Fund of UNDCP. Finally, as the modified UNDCP programme support cost arrangement proposes a cost-sharing concept, it will not be possible to fund

all backstopping activities from programme support earnings. The central budget of UNDCP covers only part of the backstopping activities. Therefore, a second option is recommended, under which no programme support budget is presented for the biennium 1994-1995; instead, the programme support funds are utilized as a lump sum to partly cover UNDCP headquarters and field operation expenditure.

38. It is proposed to examine in detail the programme support cost structure and the reimbursement mechanism for two reasons. First, the implications of including the field operations in the programme support arrangement have to be further elaborated, in particular the requirements at the field level. Secondly, as outlined in paragraphs 39-43 below, there is a need to bring the reimbursement mechanism more in line with the programme support cost structure. The Commission may wish to request the Executive Director of UNDCP to present to it, at its thirty-eighth session, a report based on a cost study, carried out within existing resources, that would identify programme support requirements for each organizational unit, for technical and administrative activities and for general-purpose and special-purpose funds. In addition, the report would identify the resources made available from the programme support funds and the subsidy required from the headquarters and field operation budget. After the Commission has considered the report, a detailed programme support budget for the biennium 1996-1997 could be presented.

### D. Implications of the modified programme support cost arrangement of the United Nations International Drug Control Programme

39. The implications of the modified UNDCP programme support cost arrangement, which would be introduced in 1993, are shown in tables 1-3 and in figures I and II. Table 1 shows the classification of organizations participating in project execution, the rate of reimbursement applied and the programme support earnings for the biennium 1992-1993. In contrast to the current arrangement, UNDCP would be identified as the executing organization for projects implemented in association with the Office for Project Services (currently of UNDP) and with UNIDO and therefore would retain a share of programme support. Since most projects implemented by the Office for Project Services and UNIDO are funded from special-purpose contributions, the modified UNDCP programme support cost arrangement would substantially increase programme support for UNDCP generated from special-purpose projects. An increase in programme support income would also be achieved by discontinuing the current practice of charging less than 13 per cent of the total project cost for programme support. That, in turn, would limit the subsidy from the central budget of UNDCP for the implementation of special-purpose projects.

40. Table 2 shows the programme support costs for the period 1984-1995, highlighting, among other things, the shift from the current (1992) to the modified (1993) UNDCP programme support cost arrangement. The financial information for table 2 is provided in figures I and II. Table 2 and figures I and II show the increase of programme support earnings generated by projects funded from special-purpose contributions. Whereas, prior to 1992, programme support costs from general-purpose projects were considerably higher compared with special-purpose projects, the order is reversed for the years that follow. Figures I and II also illustrate that programme support paid to executing agencies have increased with a rate similar to project expenditure. For UNDCP, however, programme support earnings remained rather stable prior to 1993. Only after the introduction in 1993 of the modified UNDCP programme support cost arrangement did the increases in programme support earnings match the increases in project expenditure.

Table 1. Fund of the United Nations International Drug Control Programme: programme support cost, 1992-1993
(Thousands of United States dollars)

| Entity | Project expenditure | Programme support (agencies) Rate (percentage) | Programme support (agencies) Amount | Total project activities | Programme support (UNDCP) Rate (percentage) | Programme support (UNDCP) Amount a/ | Total |
|---|---|---|---|---|---|---|---|
| A. UNDCP execution | | | | | | | |
| (1) UNDCP | 20 654.8 | - | - | 20 654.8 | 13.0 | 2 518.2 | 23 173.0 |
| (2) UNDCP with the Office for Project Services (currently of UNDP) | 771.7 | - | - | 771.7 | 5.5 | 34.4 | 806.1 |
| (3) UNDCP with UNIDO | 8 213.0 | | | 8 213.0 | 8.0 | 322.4 | 8 535.4 |
| Total, A | 29 639.5 | - | - | 29 639.5 | - | 2 875.0 | 32 514.5 |
| B. Agency execution | | | | | | | |
| United Nations entities | | | | | | | |
| (4) Department for Development Support and Management Services of the Secretariat | 1 393.5 | 13.0 | 181.2 | 1 574.7 | - | - | 1 574.7 |
| (5) Office for Project Services | 44 129.9 | 7.5 | 3 309.7 | 47 439.6 | - | - | 47 439.6 |
| (6) Office for Project Services with UNDP | 143.6 | 7.5 | 11.2 | 154.8 | - | - | 154.8 |
| (7) Economic and Social Commission for Asia and the Pacific | 142.0 | 13.0 | 18.5 | 160.5 | - | - | 160.5 |
| (8) Economic Commission for Latin America and the Caribbean | 25.7 | 13.0 | 3.3 | 29.0 | - | - | 29.0 |
| (9) Latin American Institute for the Prevention of Crime and the Treatment of Offenders | 124.2 | 7.5 | 9.3 | 133.5 | - | - | 133.5 |
| (10) International Labour Organisation | 1 579.1 | 13.0 | 205.3 | 1 784.4 | - | - | 1 784.4 |
| (11) United Nations Educational, Scientific and Cultural Organization | 227.1 | 13.0 | 29.5 | 256.6 | - | - | 256.6 |
| (12) World Health Organization | 3 007.1 | 13.0 | 390.9 | 3 398.0 | - | - | 3 398.0 |
| (13) Universal Postal Union | 47.3 | 13.0 | 6.1 | 53.4 | - | - | 53.4 |
| (14) UNIDO | 753.5 | 12.0 | 90.4 | 843.9 | - | - | 843.9 |
| (15) International Trade Centre | 162.7 | 13.0 | 21.2 | 183.9 | - | - | 183.9 |
| Intergovernmental organizations | | | | | | | |
| (16) Caribbean Customs Law Enforcement Development Council | 127.9 | — | — | 127.9 | - | - | 127.9 |
| (17) Customs Co-operation Council | 637.0 | — | — | 637.0 | - | - | 637.0 |
| (18) International Criminal Police Organization | 589.4 | — | — | 589.4 | - | - | 589.4 |
| (19) Organization of American States | 300.7 | 5.0 | 15.0 | 315.7 | - | - | 315.7 |
| Non-governmental organizations | | | | | | | |
| (20) Gilead Church | 2 676.2 | 7.0 | 187.3 | 2 863.5 | - | - | 2 863.5 |
| (21) International Council on Alcohol and Addictions | 764.2 | 7.0 | 53.5 | 817.7 | - | - | 817.7 |
| (22) International Press Service | 299.0 | — | — | 299.0 | - | - | 299.0 |
| (23) Italian Centre of Solidatiry | 483.2 | 5.0 | 24.2 | 507.4 | - | - | 507.4 |
| (24) Norwegian Church Aid | 784.3 | — | — | 784.3 | - | - | 784.3 |
| (25) University of the West Indies | 346.4 | 10.0 | 34.6 | 381.0 | - | - | 381.0 |
| Total, B | 58 744.0 | - | 4 591.2 | 63 335.2 | - | - | 63 335.2 |

continued

Table 1 (continued)

| Entity | Project expenditure | Programme support (agencies) Rate (percentage) | Programme support (agencies) Amount | Total project activities | Programme support (UNDCP) Rate (percentage) | Programme support (UNDCP) Amount a/ | Total |
|---|---|---|---|---|---|---|---|
| C. National execution | | | | | | | |
| (26) Governments | 29 312.6 | — | — | 29 312.6 | - | - | 29 312.6 |
| (27) Governments with UNDP | 2 734.2 | — | — | 2 734.2 | - | - | 2 734.2 |
| Non-governmental organizations | | | | | | | |
| (28) Center for the Study of International Relations and Development | 151.4 | 7.0 | 10.6 | 162.0 | - | - | 162.0 |
| (29) Environmental Development Action | 956.4 | 7.0 | 67.0 | 1 023.4 | - | - | 1 023.4 |
| Total, C | 33 154.6 | - | 77.6 | 33 232.2 | - | - | 33 232.2 |
| D. Associated or cooperating organizations | | | | | | | |
| (30) Office for Project Services (associated) | b/ | 7.5 | 57.9 | 57.9 | - | - | 57.9 |
| (31) UNDP (associated) | c/ | 3.5 | 5.4 | 5.4 | - | - | 5.4 |
| (32) UNDP (cooperating) | d/ | 3.5 | 95.7 | 95.7 | - | - | 95.7 |
| (33) UNIDO (associated) | e/ | 5.0 | 410.7 | 410.7 | - | - | 410.7 |
| Total, D | - | - | 569.7 | 569.7 | - | - | 569.7 |
| Grand total, A, B, C and D | 121 538.1 | - | 5 238.5 | 126 776.6 | - | 2 875.0 | 129 651.6 |

Note: UNDCP United Nations International Drug Control Programme
UNDP United Nations Development Programme
UNIDO United Nations Industrial Development Organization.

a/ Reflecting the introduction of the modified UNDCP programme support cost arrangement for 1993.
b/ Included in the figure for (2).
c/ Included in the figure for (6).
d/ Included in the figure for (27).
e/ Included in the figure for (3).

Table 2. Fund of the United Nations International Drug Control Programme: project expenditure and programme support costs, 1984–1995 a/
(Thousands of United States dollars)

| Item | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Project expenditure | 7 120.8 | 11 325.2 | 15 782.9 | 21 488.1 | 29 534.7 | 35 567.6 | 36 560.0 | 48 124.1 | 56 602.0 | 70 174.6 | 75 514.3 | 84 500.0 |
| Programme support | | | | | | | | | | | | |
| Agencies | 575.1 | 842.3 | 1 160.2 | 1 494.9 | 1 350.8 | 1 674.6 | 1 906.8 | 2 423.2 | 2 472.6 | 2 765.9 | 2 957.3 | 3 300.0 |
| UNDCP b/ | | | | | | | | | | | | |
| General-purpose contributions | 51.2 | 55.3 | 60.1 | 69.1 | 71.3 | 161.3 | 153.2 | 96.5 | 642.0 | 969.6 | 920.0 | 1 000.0 |
| Special-purpose contributions | 18.8 | 29.7 | 38.0 | 31.0 | 34.0 | 140.1 | 157.9 | 220.3 | 368.0 | 895.4 | 1 007.4 | 1 060.0 |
| Total UNDCP b/ | 70.0 | 85.0 | 98.1 | 100.1 | 105.3 | 301.4 | 311.1 | 316.8 | 1 010.0 | 1 865.0 | 1 927.4 | 2 060.0 |

a/ Figures for the years 1993–1995 are based on estimates.

b/ United Nations International Drug Control Programme.

Table 3. Fund of the United Nations International Drug Control Programme: financial statement for the bienniums 1992-1993 and 1994-1995 a/
(Thousands of United States dollars)

| Item | Biennium 1992-1993 | | | Biennium 1994-1995 a/ | | |
|---|---|---|---|---|---|---|
| | General-purpose funds | Special-purpose funds | Total funds | General-purpose funds | Special-purpose funds | Total funds |
| **Income and expenditure statement** | | | | | | |
| **A. Income** | | | | | | |
| Pledged contributions | 32 970.0 | 79 875.0 | 112 845.0 | 34 619.0 | 83 749.0 | 118 368.0 |
| Public donations | 11.0 | 202.0 | 213.0 | 10.0 | 50.0 | 60.0 |
| Interest income | 2 127.0 | 3 757.0 | 5 884.0 | 1 489.0 | 2 630.0 | 4 119.0 |
| Miscellaneous income | 435.0 | 296.0 | 731.0 | 305.0 | 207.0 | 512.0 |
| Total, A | 35 543.0 | 84 130.0 | 119 673.0 | 36 423.0 | 86 636.0 | 123 059.0 |
| **B. Expenditure** | | | | | | |
| Headquarters and field operations | | | | | | |
| Central programme | 19 360.9 | - | 19 360.9 | 23 887.6 | - | 23 887.6 |
| Programme support (UNDCP b/) | 1 611.6 | 1 263.4 | 2 875.0 | 1 920.0 | 2 067.4 | 3 987.4 |
| Subtotal | 20 972.5 | 1 263.4 | 22 235.9 | 25 807.6 | 2 067.4 | 27 875.0 |
| Project activities | | | | | | |
| Projects | 26 738.4 | 94 799.7 | 121 538.1 | 33 826.5 | 119 930.5 | 153 757.0 |
| Programme support (agencies) | 523.8 | 4 714.7 | 5 238.5 | 625.7 | 5 631.6 | 6 257.3 |
| Subtotal | 27 262.2 | 99 514.4 | 126 776.6 | 34 452.3 | 125 562.0 | 160 014.3 |
| Total, B | 48 234.7 | 100 777.8 | 149 012.5 | 60 259.9 | 127 629.4 | 187 889.3 |
| Operational result (total, A and B) | (12 691.7) | (16 647.8) | (29 339.5) | (23 836.9) | (40 993.4) | (64 830.3) |
| **Fund balance** | | | | | | |
| Fund balance as at 31 December 1991 and 1993 | 35 008.0 | 65 302.0 | 100 310.0 | 18 698.7 | 41 095.9 | 59 794.6 |
| (+) Operational result | (12 691.7) | (16 647.8) | (29 339.5) | (23 836.9) | (40 993.4) | (64 830.3) |
| (-) Operating reserve, current | 3 617.6 | 7 558.3 | 11 175.9 | 4 519.5 | 9 572.2 | 14 091.7 |
| (+) Operating reserve, previous | - | - | - | 3 617.6 | 7 558.3 | 11 175.9 |
| Fund balance as at 31 December 1993 and 1995 | 18 698.7 | 41 095.9 | 59 794.6 | (6 040.1) | (1 911.4) | (7 951.5) |

a/ Figures for the biennium 1994-1995 are projected.

b/ United Nations International Drug Control Programme.

41. The modified UNDCP programme support cost arrangement is expected to promote government execution. As noted in paragraph 35 above, no programme support is retained by UNDCP for government execution as was initially proposed in the context of the revised programme budget for the biennium 1992-1993 (E/CN.7/1993/5, para. 125). Organizations cooperating in government execution, however, such as UNDP, can receive programme support funds up to a maximum of 3.5 per cent of the total project cost. This proposal is in accordance with the UNDP model for government execution and ensures that the maximum resources are made available directly to the executing government.

42. Table 3 shows the utilization of UNDCP programme support by source of funds. The table illustrates that programme support funds partly cover UNDCP headquarters and field operation expenditure. For the biennium 1992-1993, UNDCP programme support costs amount to US$ 2,875,000, or 12.9 per cent of total headquarters and field operation expenditure, of which US$ 1,611,600 is generated from general-purpose projects and US$ 1,263,400 is generated from special-purpose projects. For the biennium 1994-1995, total earnings are estimated to amount to US$ 3,987,400, or 14.3 per cent of total UNDCP headquarters and field operation expenditure, with the share from the general-purpose fund amounting to US$ 1,920,000 and that from the special-purpose fund amounting to US$ 2,067,400. Programme support costs in the biennium 1990-1991, not shown in table 3, amount to US$ 627,900, or 4.9 per cent of total UNDCP headquarters and field operation expenditure. The increase in percentage reimbursement between the bienniums 1990-1991 (4.9 per cent), 1992-1993 (12.9 per cent), and 1994-1995 (14.3 per cent) highlights the containment of subsidy provided by the central budget of UNDCP for project implementation.

43. The modified UNDCP programme support cost arrangement essentially follows the United Nations model while introducing some adjustments to account for the specific requirements of UNDCP. The modified arrangement limits the subsidy provided by the central budget of UNDCP for the implementation of projects while maintaining the cost-sharing concept of the United Nations programme support model. The modified arrangement also provides for a clear definition of the role of the participating organizations in project execution and for a balanced sharing in the programme support costs between general-purpose and special-purpose contributions.

## Notes

1/ Report of the Council of FAO, Hundred and third Session, Rome, 14-25 June 1993 (CL 103/REP), para. 193.

2/ Ibid., paras. 186-191.